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# PARADOXES OF WORLD RECOVERY

by

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with the aid of the Research Staff of the Foreign Policy Association

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## INTRODUCTION

FOR the world as a whole, the ebb tide of the economic depression appears to have occurred in the early summer of 1932.<sup>1</sup> Since that date most countries have experienced a certain degree of recovery despite continuing maladjustments and frequent setbacks. The initial impetus toward a gradual return of business confidence may be traced to the unexpected success of the Lausanne Conference in settling the perennial problem of reparations. Unfortunately this early revival was soon checked by the development of the American banking crisis, with the result that conditions in March 1933, while not as grave as in the previous year, were still decidedly precarious.<sup>2</sup> Fears of a further collapse were quickly dispelled, however, by the courage and dispatch with which the new administration at Washington launched its domestic recovery program. By June, when the World Economic Conference opened in London, concrete evidence of improvement was already discernible. Under the influence of currency depreciation, commodity prices had risen in most countries and the indices of industrial production had moved sharply upward.<sup>3</sup> This upturn, which was apparently but slightly retarded by the failure of the conference, continued throughout 1933 and into the early months of 1934,

although the gains have been by no means evenly distributed.

## GAINS IN INDUSTRIAL ACTIVITY

The advance has been particularly striking in the field of industry. At the end of 1933 it was estimated that world industrial production had recovered 40 per cent of its total losses from the peak of prosperity to the depth of the depression,<sup>4</sup> and it is probable that this figure was exceeded during the early part of 1934. By March of the present year, six of the nine countries listed below had surpassed the 1931 level of production, while three—Great Britain, Japan and Sweden—were above that of 1928. Belgium and Czechoslovakia alone lagged behind the 1932 level. Despite general improvement, serious sub-normal conditions still prevailed in Canada, France, Germany and the United States.

### INDICES OF INDUSTRIAL PRODUCTION<sup>5</sup> (1928=100)

	1931	1932	1933	1934 March
Belgium .....	82.8	69.9	74.3	67.1 <sup>a</sup>
Canada .....	76.7	62.8	65.2	78.1
Czechoslovakia .....	81.1	59.0	57.5	58.8 <sup>b</sup>
France .....	97.6	75.6	84.6	81.9
Germany .....	73.6	61.2	68.9	84.0
Great Britain .....	88.8	88.4	93.1	103.3 <sup>c</sup>
Japan .....	100.7	107.9	128.4	138.9
Sweden .....	89.4	83.7	86.5	102.9
United States .....	73.0	57.7	68.5	75.7

a—February, 1934  
b—December, 1933  
c—First quarter, 1934

1. Cf. *The World Economic Survey 1932-33* (Geneva, League of Nations, 1933), p. 11-12, 319.

2. *Ibid.*, p. 308.

3. Cf. M. S. Stewart, "The Work of the London Economic Conference," *Foreign Policy Reports*, November 8, 1933, p. 198.

4. Cf. *Wochenbericht des Instituts für Konjunkturforschung* (Berlin), March 21, 1934.

5. *Monthly Bulletin of Statistics* (Geneva, League of Nations), June 1934, p. 250.

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Recovery has naturally been most noticeable in the industries where the recession was most severe. The output of motor cars in the United States, for example, tripled between March 1933 and the corresponding month in 1934, although in the latter month it was still less than three-fourths of the 1928 average.<sup>6</sup> With the exception of Belgium, operations in the iron and steel industry showed marked improvement in 1933 in all of the leading producing countries. The following figures showing the monthly output of pig iron illustrate the upswing in the basic industries:

PIG IRON PRODUCTION<sup>7</sup>  
(monthly average in thousands of metric tons)

	1929	1932	1933	1934 April
Belgium .....	337	229	229	246
France .....	864	461	527	533
Germany .....	1,103	328	439	697
Great Britain .....	643	303	349	504
Japan .....	103	98	133	161*
United States .....	3,580	735	1,119	1,755
U.S.S.R. ....	362	521	597	854

\*March

#### CHANGES IN COMMODITY PRICES

Such recovery as has occurred has not uniformly been accompanied by rising commodity prices. With the return of business confidence in the spring and summer of 1933, there was a substantial rise in prices throughout the world, but this advance was soon checked in the gold standard countries by depreciation of the dollar and sterling. Thus in the first half of 1934, while many nations had benefited from a higher price level, there was evidence of a renewed deflation<sup>8</sup> in the states which had maintained their currencies at an unaltered gold parity. A striking exception to this rule was Germany, where prices had increased steadily until early in 1934, when a slight reaction was reported.<sup>9</sup>

#### INDEX OF WHOLESALE PRICES IN CERTAIN COUNTRIES<sup>10</sup>

	January 1933	July 1933	March 1934
Belgium .....	521	506	478
Canada .....	63.9	70.5	71.1
Czechoslovakia .....	96.6	98.3	80.7*
France .....	390	397	380
Germany .....	91.0	93.9	95.9
Italy .....	296	283	275
Japan .....	139.8	137.6	133.7
Poland .....	56.3	58.2	53.8**
Sweden .....	106	108	112
United Kingdom .....	61.2	65.3	65.4
United States .....	61.0	68.9	73.7

\*Compiled in terms of old gold parity.

\*\*December, 1933.

6. *Ibid.*, p. 250.

7. *Ibid.*, p. 253.

8. Cf. *The Economist* (London), April 7, 1934, p. 756; April 21, p. 866.

9. The German experience can scarcely be taken as representative because the reichsmark has been selling unofficially at a substantial discount.

10. *Prices and Price Indexes* (Canada, Dominion Bureau of Statistics), April 1934.

#### GOVERNMENT FINANCE

The factors which brought recovery appear, superficially at least, to have been independent of governmental financial policy. In a few countries, such as Great Britain, increased business activity followed the adoption of drastic measures of economy, and was therefore attributed to the confidence which resulted from an improvement in public finances.<sup>11</sup> Elsewhere, however, recovery has frequently followed a sharp increase in government expenditures. To orthodox economists, the British budgetary situation affords special cause for satisfaction. In the twelve months ending March 31, 1934 a deficit of £15,000,000 was transformed into a surplus of £39,000,000,<sup>12</sup> thus permitting a substantial reduction in taxes for the present fiscal year.<sup>13</sup>

A few other states have similarly enjoyed a marked improvement in their financial status. Norway had a surplus of 5.6 million kroner in the first half of the fiscal year 1933-34 as compared with a deficit of 18 million kroner in the corresponding period of the previous year.<sup>14</sup> The Irish Free State,<sup>15</sup> Australia and the Union of South Africa<sup>16</sup> also reported a favorable balance on the year's accounts.

Nevertheless, balanced budgets were the exception rather than the rule for 1933. Due to unprecedented expenditures for relief, the United States closed its fiscal year on June 30 with a deficit of nearly 4 billion dollars as compared with one of slightly more than 3 billion for 1932-33.<sup>17</sup> For the nine months ending in March the Italian budget showed a deficit of more than 6 million lira, or twice that for the same period of the previous year,<sup>18</sup> while the French deficit for 1933 has been estimated at between 6½ and 7 billion francs, not including an additional 4 billion francs advanced by the government to cover the losses of the railways.<sup>19</sup> The Japanese had an unprecedented deficit of 932,000,000 yen for the fiscal year 1933-34, largely due to increased military and naval expenditures.<sup>20</sup>

11. Cf. *New York Times*, April 23, 1934.

12. *The Economist*, April 7, 1934.

13. *The Times* (London), April 18, 1934.

14. *The Economist*, March 17, 1934, p. 576.

15. *Ibid.*, May 12, p. 1021.

16. *Ibid.*, May 19, p. 1086.

17. The United States budget deficit for 1933-34 was \$3,989,000,000; for 1932-33 the total deficit was \$3,063,000,000. Cf. *New York Times*, July 2, 1934; also *Annual Report of the Secretary of the Treasury for Fiscal Year ended June 30, 1933*.

18. *Business and Financial Report* (Rome, General Fascist Confederation of Italian Industries), May 1934.

19. Cf. *The Economist*, February 3, 1934, p. 238.

20. Cf. "Commercial History of 1933," *The Economist*, February 17, 1934, p. 33; cf. also *The Japan Year Book, 1933* (Tokyo, The Foreign Affairs Association of Japan), p. 269-273.

## WORLD UNEMPLOYMENT

Perhaps the most distressing feature of the revival of industrial activity throughout the world is the lack of a corresponding improvement in the unemployment situation. Although the indices of production show that nearly half of the ground lost during the depression has already been regained, the total of world unemployment has only been diminished by 10 to 15 per cent.<sup>21</sup> Such improvement as has occurred, moreover, appears to have been concentrated largely in four countries—Germany, Great Britain, Japan and the United States. The majority of the other countries listed below actually had a larger number of jobless during 1933 than in the previous year, despite an apparent improvement in general economic conditions. In fact, if Germany were eliminated from the totals—a procedure which might be justified on account of the dubious character of recent Nazi statistics<sup>22</sup>—the number of unemployed in the early part of 1934 would still exceed the average for 1932, although it is somewhat less than that of a year ago.<sup>23</sup> Official figures on unemployment are, of course, in no case complete; and the total number of jobless is probably much greater than is indicated in the following table.<sup>24</sup>

WORLD UNEMPLOYMENT<sup>25</sup>  
(Average for year)

	1932	1933	1934 February
Austria .....	377,894	405,741	434,679
Belgium .....	175,259	170,023	178,556
Czechoslovakia..	554,059	738,267	847,994
Denmark .....	126,039	120,238	126,766
France .....	308,096	307,179	383,901
Germany .....	5,579,858	4,733,014	3,372,611
Great Britain ..	2,846,395	2,566,768	2,342,794
Irish Free State	62,817	72,255	98,642
Italy .....	1,006,442	1,018,955	1,103,550
Japan .....	489,168	413,853	382,315*
Netherlands .....	310,376	350,770	358,023
Poland .....	255,582	249,660	408,792
Sweden .....	89,922	97,316	101,794
United States ..	11,489,000	11,904,000	11,374,000
Total .....	23,670,090	23,148,039	21,514,417

\*January, 1934.

## INTERNATIONAL TRADE

Another striking paradox in the developments of the past year was the continued decline of international trade in the face of increased business activity within the various countries. Despite some increase in the

21. The international index of unemployment prepared by the International Labor Office was 247 for December 1933 (1929=100) as compared with 289 for December 1932, a reduction of 14.5%. Cf. *International Labour Review*, April 1934, p. 571.

22. Cf. p. 152.

23. For comparable figures for February 1933, cf. M. S. Stewart, "Problems before the World Economic Conference," *Foreign Policy Reports*, June 7, 1933, p. 71.

24. For general discussion of the inadequacy of prevailing unemployment statistics and the problems involved in improving them, cf. *International Labour Review*, April 1934, p. 472, 498.

25. Sources: *Monthly Bulletin of Statistics*, cited, June 1934; *International Labour Review*, May 1934.

movement of industrial raw materials, world trade in 1933, measured in terms of gold, was 9 per cent lower than in the previous year and 65 per cent under the 1929 level. While the decline was most severe in the United States and Canada, where it reflected a depreciation in the value of the national currencies, there were no exceptions to the general trend among the larger countries. Recovery has been almost entirely confined to the industries producing for home consumption, and little progress has been made anywhere toward restoring foreign markets.

WORLD TRADE BY COUNTRIES<sup>26</sup>

Merchandise Only

(in millions of U. S. [old] gold dollars)

	1929	1932	1933	Per cent of decline from 1932 to 1933
Argentina .....	1,727	545	514	-6
Belgium* .....	1,872	863	803	-7
Canada .....	2,524	886	710	-20
France .....	4,247	1,946	1,841	-5
Germany .....	6,415	2,471	2,151	-13
India .....	2,074	706	646	-9
Italy .....	1,941	771	705	-9
Japan .....	1,969	783	746	-5
Netherlands .....	1,906	865	780	-10
United Kingdom ..	8,956	3,561	3,286	-8
United States ..	9,496	2,907	2,392	-18
Total for world ..	68,641	26,611	24,182	-9

\*Including Luxemburg.

To a large extent the 1933 drop in trade from the extremely low level of the previous year merely reflected a further lowering of gold prices throughout the world. Estimates of the quantum of trade, however, show a loss of approximately 3 per cent as compared with 1932.<sup>27</sup> The increased movement of raw materials was reflected in slightly higher tonnage figures, with gains and losses about evenly divided among the various countries.

TOTAL FOREIGN TRADE OF CERTAIN COUNTRIES<sup>28</sup>

(monthly averages in thousands of metric tons)

	1929	1932	1933	Per cent change 1932 to 1933
Argentina .....	2,479	1,901	1,726	-8
Austria .....	1,198	663	649	-2
Belgium* .....	5,909	4,242	4,210	-1
France .....	8,281	5,940	6,131	+3
Germany .....	10,129	6,200	6,435	+4
Italy .....	2,689	1,779	1,868	+5
Japan .....	2,282	1,974	2,272	+15
Netherlands .....	3,940	3,215	3,071	-4
Poland .....	2,177	1,274	1,278	+0
Rumania .....	681	792	770	-3
Spain .....	1,555	912	849	-7
Switzerland .....	812	765	734	-5
U.S.S.R. ....	1,340	1,654	1,596	-4

Total for 13

countries .....

\*Including Luxemburg.

\*\*Less than one half of one per cent.

26. Sources: *Statistical Year-book of the League of Nations*, 1932-33 (Geneva, 1933); *Monthly Bulletin of Statistics*, cited, May 1934.

27. *Monthly Bulletin of Statistics*, cited, March 1934, p. 42.



## ECONOMIC SITUATION IN SPECIFIC COUNTRIES

## AUSTRALIA

Despite its relative unimportance in world economy, Australia merits special attention as the first country to conceive and put into operation a scientific plan for coping with the economic crisis. For Australia the crisis was definitely external in origin. The sudden fall in the prices of agricultural products in 1929-30 reduced the value of Australian exports by 40 million pounds sterling, while the sudden collapse of the capital market brought a loss of an additional 30 million pounds in overseas income.<sup>29</sup> The reduction of income from these two sources was equal to more than 10 per cent of Australia's entire national income, and the indirect losses were at least double this amount. In order to restore internal equilibrium, the Australian government early in 1931 adopted a plan for distributing this burden as equitably as possible over the whole population. The main items of this program, known as the "Premier's Plan," were as follows:

1. A reduction in real wages of approximately 10 per cent, determined by the Commonwealth Arbitration Court.
2. Curtailment in government expenditures by upwards of 20 per cent, including all emoluments, wages and salaries paid by the state.
3. Reduction in interest, both public<sup>30</sup> and private, and in rents.
4. Expansion of central bank credit to finance deficits and public works.
5. Depreciation of the Australian pound to correct the balance of payments, and in order to raise the real income of the export industries to a point at which their losses would be comparable to those of the other groups.

While these drastic measures served to cushion the impact of world deflationary forces upon Australian economy, it was not until the latter part of 1932 that definite improvement could be observed. A sharp increase in exports occurred in September 1932 which, although not fully maintained, appears to have marked the beginning of the upward phase in the economic cycle. For the ten months ending May 31, 1934, the Commonwealth's foreign trade showed an export balance of more than £39,000,000, which was approximately £3,000,000 above that for the corresponding period of the previous year.<sup>31</sup> This was sufficient to leave a large credit surplus after deducting interest payments, and has led to a considerable rise in imports. Wool sales during the 1933-34 season were

nearly double those of the depression years and virtually up to the 1927-28 level.<sup>32</sup> The general improvement in economic conditions has led to some increase in employment, although the number of jobless remains appallingly high. In the second quarter of 1932 approximately 30 per cent of the industrial workers were without jobs; by the first quarter of 1934 this proportion had been reduced 21.9 per cent.<sup>33</sup> A budget surplus is in prospect for the fiscal year just closing,<sup>34</sup> and as a reflection of the improved state of public finances, the interest on recent government loans has been the lowest in the history of Australia.<sup>35</sup> Bank deposits are also running well ahead of the past year,<sup>36</sup> even though wages have not been increased to meet the advancing cost of living.<sup>37</sup> This latter factor, coupled with the continued low prices for meat and dairy products,<sup>38</sup> continues to create a certain anxiety in spite of the general improvement.

## GREAT BRITAIN

For England the world crisis of 1929-34 only intensified a business and trade depression which had existed since the end of the war.<sup>39</sup> Among the primary factors contributing to this perennial economic stagnation has been the failure of the United Kingdom's export trade to keep pace, until recently, either with domestic imports or with the exports of its chief competitors. At the same time, the fact that Britain's adjustment to post-war conditions was so slow prevented it from sharing in the speculative excesses of the boom period.<sup>40</sup> It is, consequently, not surprising that the recession brought about by the crisis should have been less severe than in many other industrial countries, or that recovery should have started earlier and been more substantial in character.

During the past eighteen months the improvement in British business conditions has been uninterrupted<sup>41</sup> and has extended to nearly the whole of the national economy. Industrial production has increased by nearly 20 per cent since 1932;<sup>42</sup> employment has

33. *International Labour Review*, cited.

34. *New York Times*, June 17, 1934.

35. *Ibid.*

36. *The Economist*, June 9, 1934.

37. For wage statistics, cf. *International Labour Review*, May 1934, p. 706; for cost of living, cf. *Monthly Bulletin of Statistics*, cited, June 1934.

38. Cf. *Christian Science Monitor*, February 2, 1934.

39. Cf. M. S. Stewart, "Britain's Financial and Economic Crisis," *Foreign Policy Reports*, November 11, 1931.

40. Cf. C. M. Short, "The Process of Recovery Abroad: British Revival Due to Natural Causes," *The Analyst*, March 16, 1934.

41. The most recent monthly figures indicate a mild recession in Great Britain. Cf. *The Economist*, June 30, 1934.

42. Cf. *Board of Trade Journal* (London, H.M. Stationery Office), May 24, 1934.

28. *Ibid.*, May 1934, p. 214-15.

29. D. B. Copland, *Australia in the World Crisis, 1929-1933* (New York, MacMillan, 1934).

30. The Australian internal debt was converted at a 22½ per cent saving in interest charges.

31. *New York Times*, June 17, 1934.

32. *Ibid.*, March 12, 1934.

risen by 7 per cent;<sup>43</sup> the consumption of electric power has advanced 10 per cent;<sup>44</sup> while the activity of the engineering and building trades has been one-third greater.<sup>45</sup> Due to the orthodox financial policy of the government, the budget has been balanced,<sup>46</sup> and a considerable rise has taken place in the gold reserves of the Bank of England.<sup>47</sup> While the volume of British foreign trade has remained at a standstill, Britain's share of the total trade of the world has shown a slight increase.<sup>48</sup> The diffusion of this improvement among the various industrial groups may be seen in the following table:

INDEX OF INDUSTRIAL PRODUCTION <sup>49</sup>				
Group	1931	1932	1933	1st quarter 1934
Mines and quarries ..	81.6	77.5	76.9	89.0
Iron and steel .....	65.9	66.2	82.2	104.7
Non-ferrous metals..	100.1	96.3	101.9	117.2
Engineering and shipbuilding .....	94.9	88.6	96.0	105.9
Textiles .....	77.0	85.1	89.8	96.3
Chemical trades .....	95.2	98.1	101.0	109.0
Leather and shoes ..	99.3	96.4	106.2	109.8
Food, drink, etc. ....	103.7	97.6	99.2	99.7
Gas and electricity ..	142.4	147.0	154.9	(a)
Total .....	93.7	93.3	98.2	109.0

(a) Incomplete.

Although all the group indices, with the exception of that for mines and quarries, showed a substantial rise during 1933, the figures conceal a considerable disparity in the degree of improvement experienced by different sections of the country. Recovery has been most pronounced in the south of England, particularly in the London area; in the northern and central part of the country, however, there are heavily populated counties where it is doubtful whether the former industries will ever be revived.<sup>50</sup> This situation has been aggravated by a gradual southward drift of industries, which has not been accompanied by a corresponding shift in population.<sup>51</sup> Two industries—coal and cotton textiles—which once formed the backbone of Britain's export trade, have been

particularly hard hit. Many observers believe that due to its relatively high costs of production<sup>52</sup> and a growing efficiency on the part of its chief competitors, England is unlikely to regain its markets for these products.<sup>53</sup>

### The Unemployment Situation

Taken at face value, one of the most heartening indications of recovery has been the progressive reduction in unemployment from a peak of over 3 million in June 1932 to approximately 2,093,000 in June 1934.<sup>54</sup> Counterbalancing this gain, however, has been the somewhat sobering fact that employment has not kept step with production. While the general index of industrial activity for the first quarter of the present year was 3 per cent above the 1928 level,<sup>55</sup> the number of jobless was nearly twice as large.<sup>56</sup> The situation has been further complicated by the uneven distribution of re-employment, geographically and by trades. Despite the gains of the past year, which have reduced unemployment to 16.3 per cent of all insured persons, a third of the workers of Wales and nearly a quarter of those of Scotland and Northern Ireland are still without jobs. The gravity of the situation in the more depressed areas is apparent from the following table:

### UNEMPLOYMENT IN CERTAIN INDUSTRIES BY LOCALITY (April 1934)<sup>57</sup>

(in percentage of insured workers)

Section	Engineering			All industries
	General	Construc- tional	Ship- building	
London .....	7.6	13.4	27.8	9.2
Southeastern .....	7.3	24.0	12.2	8.6
Southwestern ....	8.3	22.3	24.8	13.2
Midlands .....	10.4	16.4	30.0	12.5
Northeastern .....	22.0	26.2	64.3	21.2
Northwestern ....	24.1	23.6	45.4	20.7
Scotland .....	24.7	40.1	57.4	23.5
Wales .....	29.6	30.7	58.5	33.0
Northern Ireland ..	22.0	46.4	55.8	23.7
Great Britain ....	16.9	33.5	49.7	16.7
April 1933 .....	27.7	50.1	59.9	21.3

That the working class as a whole has not shared the proceeds of recovery is indicated, moreover, by a further increase in the num-

43. *Monthly Bulletin of Statistics*, cited, May 1934, p. 238.

44. *The Economist*, Trade Supplement, May 26, 1934.

45. *Ibid.*; also Short, "The Process of Recovery Abroad," cited.

46. Cf. p. 147.

47. Gold reserves of the Bank of England on May 23, 1934 were £191,000,000 as compared with £120,000,000 on January 4, 1933. Cf. *The Economist*, January 7, 1933; May 26, 1934.

48. In 1929, British trade was 13.04 per cent of the total world trade. In 1932 the ratio was 13.38 per cent, and in 1933 it was 13.59 per cent. British exports in 1933 were greater than those of the United States for the first time since 1914. For details, cf. *Statistical Year-book of the League of Nations*, 1933-34.

49. *Board of Trade Journal*, cited, May 25, 1933; May 24, 1934.

50. For a graphic description of conditions in the County of Durham, cf. *The Times* (London), March 20, 21, 22, 1934.

51. In greater London and south England 563 new factories have been opened during the past two years, while 238 have been permanently closed; in the entire remaining portion of the country, including Scotland and Wales, only 536 factories have been opened and 589 have been closed. Cf. *Board of Trade, Survey of Industrial Development, 1933* (London, H.M. Stationery Office, N.P.P. 51-203).

52. Owing to defects in organization and the worked-out condition of many of the mines, reduction in the cost of coal production has been particularly difficult. The cost per ton at the end of 1933—13s. 4½d.—was only 2½d. lower than in 1929. Cf. *The Economist*, April 21, 1934, p. 836; also Stewart, "Britain's Financial and Economic Crisis," cited, p. 331-2. For analysis of the weakness of the cotton industry, cf. *Planning* (London, Political and Economic Planning), No. 11, October 10, 1933; also *The Economist*, March 24, 1934, p. 621.

53. Cf. J. A. Hobson, "Recovery in Great Britain," *The Nation*, May 23, 1934.

54. The number of registered unemployed in June 1932 was 3,055,602; by June 1933 this total had been reduced to 2,503,898. For June 1934 figures, cf. *New York Herald Tribune*, July 10, 1934; for earlier figures, cf. *Monthly Bulletin of Statistics*, cited.

55. Cf. p. 146.

56. The average number of unemployed in 1928 was 1,290,229; for the first quarter of 1934 it was 2,368,226.

57. Great Britain, *Ministry of Labour Gazette*, May 1934.

ber of persons in receipt of Poor Relief,<sup>58</sup> which is attributed to a growth in the number of persons who are, for various reasons, disqualified from receiving unemployment benefits.

Despite the present favorable state of government finances, Great Britain remains burdened by the largest indebtedness of any country in the world. While interest and management charges have been reduced by successful refunding operations to the lowest level since the war, the net deadweight debt rose during the past year to a new high level as a result of conversions at discount and the appropriation of an additional £200,000,000 to cover the cost of establishing and equipping the Exchange Equalization Fund. In spite of a substantial annual saving, interest and service charges on the national debt exceed one billion dollars a year (at par of exchange), which is about six per cent of the total national income of Great Britain.<sup>59</sup>

#### The Nature of British Recovery

Although the upturn in England started shortly after the abandonment of the gold standard, the relative stability of the price level, especially during the past year, suggests that monetary factors have played a comparatively passive rôle in the process of recovery. The maximum fluctuation of wholesale prices since early in 1932 has been less than 10 per cent,<sup>60</sup> while the cost of living has declined moderately.<sup>61</sup> More influential has been the stimulus given to domestic industries by the tariff restrictions adopted by the National Government.<sup>62</sup> Where this advantage has been gained at the expense of a higher cost of production, the price paid by the consumer is, of course, reflected in a loss of demand for other goods. On the other

hand, it can scarcely be doubted that the building of plant facilities to meet the newly created demand for domestic products has given at least a temporary impetus to business activity. This interpretation would appear to be confirmed by the failure of exports to keep pace with the revival of internal trade. While recent figures indicate a slight rise in the sterling value of exported commodities,<sup>63</sup> the gold value has continued to decline.<sup>64</sup> The visible adverse balance of trade, moreover, has shown a tendency to increase in the past few months despite the effect of the tariff and exchange depreciation.<sup>65</sup>

For these reasons many authorities are inclined to doubt whether Britain's revival can in any sense be considered as a basis for permanent recovery. Some observers feel that the improvement which has taken place must be attributed primarily to the normal demand for repairs and replacements following a period of economic stringency. Others see the adoption of the principles of economic nationalism as a "system admirably conceived to stabilize depression."<sup>66</sup> Few economists believe that a country like England—with its economic structure geared to the world market—can experience a substantial upturn on the basis of domestic trade alone,<sup>67</sup> or that an attempt to build a self-contained empire will be tolerated by other countries even if it were politically feasible.<sup>68</sup> From the point of view of these critics, therefore, the course of British recovery is irrevocably bound up with the return of normal conditions throughout the world.

#### GERMANY

The contradictions which are apparent in the present-day economic situation throughout the world are nowhere more pronounced than in Germany. According to reports from semi-official sources, the cohesion and unification of political thought following the Nazi revolution led, in the latter half of 1933, to a revival of economic activity which "permeated virtually every part of domestic business."<sup>69</sup> This statement seems to be fully

58. "Statement of the Ministry of Health showing the Number of Persons in Receipt of Poor Relief in England and Wales in Quarter ending in March 1934" (London, H.M. Stationery Office, 32-9999).

59. Cf. Stewart, "Britain's Financial and Economic Crisis," cited, footnote 24.

THE BRITISH NATIONAL DEBT\*  
(In millions of pounds sterling)

Year ending March 31	External Debt**	Internal Debt	Total	Interest & Management Charges
1914 .....	nil	650	650	25
1919 .....	1,365	6,070	7,435	270
1924 .....	1,126	6,515	7,641	307
1929 .....	1,085	6,416	7,500	311
1931 .....	1,067	6,347	7,414	293
1932 .....	1,091	6,343	7,434	289
1933 .....	1,060	6,583	7,644	282
1934 .....	1,037	6,786	7,822	216

\*Cf. *Midland Bank Monthly Review*, April-May 1934.

\*\*At par of exchange. Does not include unpaid interest on war debt to the United States.

60. *The Economist* index of wholesale prices (September 18, 1931=100) was 108.2 on May 23, 1934. Cf. *The Economist*, May 26, 1934, p. 1136.

61. The index of the cost of living (July 1914=100) was 145 in September 1931; by April 1934 it had declined to 137. Cf. *Statistical Year-book of the League of Nations, 1932-33*; *The Economist*, Monthly Supplement, May 26, 1934.

62. For details, cf. M. S. Stewart, "The Ottawa Conference," *Foreign Policy Reports*, December 21, 1932, p. 247.

63. For the first four months of 1934 British exports totaled £124,812,507 as compared with £116,115,242 for the corresponding period of 1933, a gain of 7.4 per cent. Cf. *The Times*, May 15, 1934.

64. The gold value of British exports for January-April 1934 was \$384,520,000 as compared with \$395,720,000 for the same period in 1933.

65. From January to April the visible adverse balance of trade for 1934 was £95,253,000 as compared with £77,797,000 for the same period in 1932, and £99,095,000 on a much heavier volume of trade in 1931.

66. *The Economist*, March 24, 1934, p. 620.

67. Cf. statement by Sir Josiah Stamp, *New York Times*, June 12, 1934; also Kemper Simpson, *Introduction to World Economics* (New York, Harper, 1934), p. 82-86.

68. Cf. Hobson, "Recovery in Great Britain," cited.

69. Cf. *Germany's Economic Situation at the Turn of 1933-34* (Berlin, Reichs-Kredit-Gesellschaft, Aktiengesellschaft, 1934). The Reichs-Kredit-Gesellschaft operates as a private bank under government control.



borne out by statistics of industrial production, employment and domestic trade. At the same time, Germany has been faced with a growing adverse balance of international payments, necessitating drastic import restrictions and culminating, on June 14, 1934, in the proclamation of a moratorium on the transfer of all payments on its foreign indebtedness.<sup>70</sup>

In order to resolve this seeming paradox it is necessary to make a sharp distinction between the functioning of Germany's domestic economy and its international economic position. At home the general picture has been encouraging. The output of producers' goods in February 1934 was nearly 50 per cent above the 1932 level, while production of consumers' goods had advanced by one-sixth.<sup>71</sup> Industrial earnings for 1933 were considerably greater than in 1932.<sup>71a</sup> Employment in industry rose from 36 per cent of the 1928 level in 1932 to 46 per cent at the end of 1933.<sup>72</sup> Public works projects involving an expenditure of 5,494,000,000 reichsmarks have been authorized since the spring of 1932, and a quarter of this amount has already been spent.<sup>73</sup> As a result of government intervention, the agricultural situation has also been noticeably improved.<sup>74</sup>

To a certain extent, however, these gains appear to have been achieved at the expense of lower living standards for the working class. While increased business activity has led to a substantial reduction in unemployment, foreign authorities are inclined to question official German figures showing a decline of over three and a half million since the beginning of 1933.<sup>75</sup> Even before Hitler's accession to power, the number of jobless not included in the official reports was estimated at nearly two million,<sup>76</sup> and all indications point to sharp increase in the volume of invisible unemployment. Workmen who are known to have had definite Social-Democratic or Communist affiliations have hesitated to present themselves at labor exchanges,<sup>77</sup> and no records are kept of the women who have been displaced from jobs to make way for men.<sup>78</sup> Belief that the improvement in the labor market is much less than officially claimed is further substantiated

by evidence of a reduction in consumer purchasing power. While nominal wage-rates have remained approximately unchanged during the past year at 16 per cent below the 1928 level,<sup>79</sup> the cost of living, particularly as reflected in the price of food, has substantially increased.<sup>80</sup> But despite higher unit prices, the aggregate turnover of the retail trade was from 3 to 6 per cent below that of the previous year, with the food and drink producers among the heaviest losers.<sup>81</sup> The apparent decline in working class earnings was confirmed, moreover, by the lower return obtained from the wage-tax during 1933,<sup>82</sup> and the fact that a quarter of the nation received aid under the Winter Relief Fund.<sup>83</sup>

#### External Difficulties

Meanwhile, the artificial devices used to strengthen the home market have greatly aggravated Germany's external difficulties. Not only did the popular enthusiasm for *Autarkie*<sup>84</sup> lead to a relative neglect of the export industries, but their competitive position was further weakened by the heavy costs of sustaining the national rehabilitation program.<sup>85</sup> This became the more serious because political considerations had prevented the German government from adopting either of two possible means of adjusting the national economy to world conditions: (1) rigorous deflation, or (2) devaluation of the mark in response to the changed value of American, British and Japanese currencies.<sup>86</sup> As a result of these factors and of increased purchases of raw materials abroad,<sup>87</sup> Germany's trade position showed a rapid deterioration throughout the year. How much of the decline in exports was attributable to

78. It is known, however, that of the 3,200,000 persons put back to work between January 1933 and March 1934, 87.2 per cent were men and only 12.8 per cent women. During the year ending March 3 the number of employed men rose 28.4 per cent, while the number of women in employment rose only 6.4 per cent. Due partially to state subsidy for newly married couples, marriages increased from 7.9 per 1,000 in 1932 to 9.7 per 1,000 in 1933. Cf. *New York Times*, June 10, 1934.

79. The index of wages was 84.1 in May 1933, and 83.5 in the corresponding month of 1934. Cf. *New York Times*, June 3, 1934; also *The International Labour Review*, May 1934, p. 706.

80. From April 1933 to April 1934 the cost of living, according to official figures, increased approximately 4 per cent. Food prices rose over 7 per cent in the same period. Unofficial reports indicate an increase in prices of the principal foodstuffs of from 9 to 12 per cent. Cf. *Prices and Price Indexes*, cited, May 1934; *The Times* (London), March 23, 1934.

81. For details, cf. *Germany's Economic Situation at the Turn of 1933-34*, cited, p. 30-31; also *The Times* (London), March 23, 1934; and *The Economist*, March 3, 1934. Recent reports indicate that the decline in per capita consumption has been checked. Cf. *The Economist*, May 26, 1934.

82. *The Economist*, March 3, 1934. German money income for the first half of 1933 is estimated at 22.4 billion reichsmarks against 22.8 billion in the same period of 1932. *Germany's Economic Situation at the Turn of 1933-34*, cited.

83. *The Times*, March 23.

84. For statement of case for *Autarkie*, cf. Ferdinand Fried, *Autarkie* (Jena, Eugen Diederichs Verlags, 1932).

85. Cf. Gustav Cassel, "Why Germany Defaults," *Manchester Guardian Weekly*, June 8, 1934.

86. Cassel estimates that the mark is overvalued by nearly 50 per cent in terms of sterling. As the dollar and the yen are both undervalued in relation to sterling, the adverse position of the mark is even greater.

70. Cf. *New York Times*, June 15, 1934.

71. *Monthly Bulletin of Statistics*, cited, May 1934, p. 202.

71a. Cf. *The Economist*, May 26, 1934.

72. *Germany's Economic Situation at the Turn of 1933-34*, cited, p. 2.

73. *Ibid.*, p. 3-4.

74. The sales value of German agricultural products for 1933-34 is estimated at 7,000,000,000 marks, as compared with 6,500,000,000 in 1932-33 (C. M. Short, "German Economic Recovery Exemplifies Operation of Bold Politico-Economic Plans," *The Annalist*, April 27, 1934).

75. In January 1933 the number of registered unemployed in Germany was 6,013,612; in May 1934 the official figures were 2,525,000. Cf. *Monthly Bulletin of Statistics*, cited.

76. Cf. *The Economist*, March 3, 1934.

77. *Ibid.*



purely economic factors and how much to foreign boycotts was, of course, difficult to establish. It is known, however, that the deliberate diversion of Soviet purchases from Germany to France and England was responsible for a major part of the loss.<sup>87</sup> The gravity of the Reich's position may be seen from the following table:

GERMAN FOREIGN TRADE <sup>89</sup> (in millions of reichsmarks)			
Monthly Averages	Imports	Exports	Balance
1930 .....	866	944	+78
1931 .....	561	767	+206
1932 .....	369	473	+84
1933 .....	350	406	+56
1934, Jan. ....	372	350	-22
Feb. ....	378	343	-35
Mar. ....	398	401	+3
Apr. ....	398	316	-82
May ....	380	337	-42
June ....	377	338	-38

In an effort to protect the dwindling gold and *devisen* reserve of the Reichsbank from further shrinkage on account of adverse balance of trade, the German government, beginning in March 1934, issued a series of regulations restricting the foreign exchange available for private imports to a fraction of the amount normally required.<sup>90</sup> Despite these precautions, the reserves of the Reichsbank declined rapidly throughout the spring, until the bank's reserve ratio reached an unprecedented low figure of 2.0 per cent on June 30.<sup>91</sup> Unable or unwilling to restore a normal balance of payments through further internal adjustments, the Reich proclaimed a six-month moratorium on June 14 on long

and middle-term foreign obligations, including service on the Dawes and Young loans.<sup>92</sup> This was followed on June 22 by even more drastic restrictions whereby the amount of foreign exchange available for external payments on any particular day was limited to the total foreign income for that day.<sup>93</sup> Under the provisions of this measure the sale of foreign money orders to the general public was completely discontinued,<sup>94</sup> and a system of priorities established so that raw material and food requirements might receive first consideration.

While it is difficult to foretell the degree to which this exchange crisis will affect internal economic conditions, most observers fear that the burden imposed on German industry by the financial stringency and an increasing scarcity of raw materials will serve to check further expansion at home. The curtailment of production in the textile industry, announced July 20, marked the first open indication of the effect of the exchange blockade.<sup>94a</sup> To meet this issue, Germany must either bring its internal economy in line with world conditions—a measure which would necessitate a cessation of its present domestic expansionist policies<sup>95</sup>—or adopt a thoroughgoing program of self-sufficiency. The substitution of German-made articles for the metals, textile fibres, oils and other basic products previously imported would, however, necessitate huge capital expenditures which could only be made through a further reduction in real wages and standards of living.

## FRANCE

France was the last of the great industrial countries to feel the impact of the depression. In 1930 France, in contrast with all the other states except Russia, had on the whole a better year than in 1929, with industrial production more than 10 per cent above the 1928 level. A slight recession occurred in 1931, but even in that year production was considerably above the 1925-29 average, while the number of registered unemployed was reported to be only 75,000.<sup>96</sup> France's relative strength in the face of world deflationary influences is usually attributed to its well-balanced national economy, the momentum of its post-war reconstruction program and the drastic measures taken to support agricultural prices. By 1932 it became apparent, however, that the very steps which had hith-

87. The increase has been particularly marked in those commodities possessing particular value for war purposes: e.g., copper, cotton, rubber, nickel, iron, aluminum and wood-pulp. Cf. *Wirtschaft und Statistik*, first February number, 1934, 14th year, No. 3, p. 77; also *The Times*, December 15, 1933; *New York Times*, March 20, 1934.

88. During the first quarter of 1934 the Soviet Union's imports from Germany were valued at 21 million marks as against 181 million in the first quarter of 1932. Cf. *New York Times*, May 29, 1934. Soviet trade figures show a reduction in purchases from Germany from 1932 to 1933 of 55 per cent. Cf. *Economic Review of the Soviet Union*, New York, April 1934.

89. Source: Yearly figures from *Monthly Bulletin of Statistics*, cited; monthly figures for 1934 from *Statistical Bulletin*, Institute of International Finance, June 1934, and *New York Times*, June 14, and July 17, 1934.

90. Cf. *New York Times*, March 24, 26, 28, May 28, June 2, 19; *New York Herald Tribune*, June 4, 23.

91. The reserves of the Reichsbank on certain dates were as follows:

(In millions of reichsmarks)			
	Gold	Foreign Currencies	Reserve Ratio
1932			
June 17 .....	823	136	25.1
1933			
June 15 .....	264	85	7.6
December* .....	386	9	10.8
1934			
January* .....	376	7	11.1
February* .....	333	....	....
March* .....	237	8	6.7
April* .....	205	7	5.8
May 15 .....	169	5	4.8
June 7 .....	111	9	3.4
June 15 .....	94	6	2.9
June 30 .....	70	7	2.0

Source: *Statistical Bulletin*, Institute of International Finance, June 1934; *New York Times*, June 19, July 4, 1934; *The Economist*, June 24, 1933, p. 1379.

\*Last report date of month.

92. Cf. *New York Times*, June 15, 1934. An exception was later made for payments on the Dawes and Young loans due British subjects. *Ibid.*, July 5.

93. *New York Times*, June 23, 1934.

94. *New York Herald Tribune*, June 23, 1934.

94a. *New York Times*, July 21, 1934.

95. Cf. Cassel, "Why Germany Defaults," cited.

96. For details, cf. *Monthly Bulletin of Statistics*, cited.

erto served to insulate the French economic structure from the depression had rendered it seriously out of adjustment with the world economy. Exports declined catastrophically,<sup>97</sup> and a serious discrepancy appeared between French internal prices and those of the outside world.<sup>98</sup> Nevertheless France, as compared with its neighbors, retained an impregnable financial position, so that it accumulated a large proportion of the world's supply of monetary gold.<sup>99</sup>

Although among the last to suffer from the world crisis, France was among the first to show signs of definite recovery. With scarcely a perceptible interruption, industrial production increased from late summer of 1932 until July 1933, when it receded slightly, although remaining well above the 1932 level.

INDEX OF FRENCH INDUSTRIAL PRODUCTION<sup>100</sup>  
(1928=100)

1929 .....	109.4
1930 .....	110.2
1931 .....	97.6
1932 .....	75.6
1932	
June .....	73.3
December .....	77.2
1933	
June .....	87.4
December .....	83.5
1934	
January .....	83.5
February .....	82.7
March .....	81.9
April .....	81.1

The upturn has been particularly marked in the heavy industries. During the first four months of 1934 the output of both coal and pig iron has been running well ahead of the corresponding months of 1933, while that of steel has been but slightly lower.<sup>101</sup> The stability of the franc and the success of the Doumergue Cabinet in balancing the budget is reported to have increased confidence on the investment market.<sup>102</sup> The new govern-

97. The value of French exports declined from 4,342,000,000 francs in 1928 to 1,642,000,000 francs in 1932 and 1,536,000,000 in 1933, while imports dropped only from 4,470 million francs to 2,484 million between 1928 and 1932. *Monthly Bulletin of Statistics*, cited.

98. The growing discrepancy in prices may be seen from the following table:

	Domestic Commodities	Imported Commodities	Retail Prices*
1913 .....	100	100	100
1928 .....	619	660	519
1929 .....	635	602	556
1930 .....	591	458	581
1931 .....	527	344	569
1932 .....	528	339	526
1933 .....	440	270	520

Source: *Bulletin de la statistique générale de la France, et du service d'observation des prix*, Supplément mensuel, April 1934.

\*Cost of living in Paris.

99. The gold reserve of the Bank of France on December 30, 1932 was 83,017,000,000 francs, which was approximately 29 per cent of the world's supply of monetary gold. Cf. *Federal Reserve Bulletin*, March 1933; also J. C. deWilde, "French Financial Policy," *Foreign Policy Reports*, December 7, 1932.

100. *Monthly Bulletin of Statistics*, June 1934.

101. For details, cf. *Monthly Bulletin of Statistics*, cited.

102. Cf. *New York Times*, April 30, 1934; *The Economist*, May 26, 1934.

ment has also inaugurated an extensive public works scheme by which it plans to provide employment for at least 100,000 workers.<sup>103</sup>

Against this somewhat scanty evidence of revival must be placed indisputable symptoms of renewed economic deterioration. French railway receipts for the first five months of 1934 were nearly 150 million francs under those of the same period in 1933.<sup>104</sup> Production in the cotton industry has been running slightly above 1933, but as deliveries have been lower this has merely meant a sharp increase in unused stocks.<sup>105</sup> Bankruptcies have virtually doubled in number since 1928. Moreover, as in Germany, the position of the working class appears to have become relatively less favorable. While not as grave as in some other industrial countries, French unemployment reached a new peak in the spring of 1934,<sup>106</sup> with the actual number of jobless at least five times as great as indicated by official statistics.<sup>107</sup> Despite the steady decline in wholesale prices, the cost of living, both in Paris and in provincial cities, has risen appreciably in the past year,<sup>108</sup> and shows no sign of giving way before the deflationary drive of the Doumergue Cabinet.<sup>109</sup>

Most critical of all have been the growing difficulties with regard to the government's agricultural program. Attempts to fix the domestic price of wheat at approximately two to three times that prevailing on the world market<sup>110</sup> has not only stimulated unwanted grain production but has further complicated the basic problem by causing a sharp decrease in the consumption of bread. As a result many farmers have found it impossible to dispose of their crops at the established price, and have been forced either secretly to undercut the official price or to store their wheat.<sup>111</sup> Even with unsatisfactory crop conditions in 1934, it is estimated that there will be a large carry-over for the following year. The attempt to maintain domestic prices of meat, sugar and other agricultural products through a drastic restriction of imports has led to similar difficul-

103. *New York Times*, May 17, 1934.

104. *Ibid.*, June 11, 1934.

105. Cf. *The Economist*, June 16, p. 1311.

106. The number of applications for work at official employment bureaus was 354,694 in May 1934 as compared with 307,725 in May 1933 and 322,320 in May 1932. *Monthly Bulletin of Statistics*, cited.

107. Cf. J. C. deWilde, "The Political Ferment in France," *Foreign Policy Reports*, July 18, 1934, p. 122.

108. Cf. *Monthly Bulletin of Statistics*, cited.

109. Cf. *New York Herald Tribune*, April 15; *New York Times*, June 8, 14, 1934.

110. The established price was originally 115 francs per quintal; from September 1, 1933 to July 1934 this price was increased 1.50 francs monthly as an inducement to millers to buy. Foreign wheat, frequently of a superior quality, would cost from 40-60 francs per quintal at world prices if imported. On July 13, 1934 the French government reduced the price of wheat to 108 francs per quintal.

111. For details, cf. *The Economist*, June 9, 1934; also deWilde, "The Political Ferment in France," cited.

ties. Nor does the reduction in France's unfavorable balance of trade in the early months of 1934 give promise of lessening the dislocation which has arisen from its nationalist policies.<sup>112</sup> With exports continuing to decline, a further sharp curtailment of imports can only accentuate existing disparities in the price structure and thereby make ultimate adjustments the more difficult.

## JAPAN

Japan's trade revival, contrasted with the gravity of its economic situation in 1930 and 1931, has been particularly spectacular. As an exporter of raw materials, Japan was among the earliest to suffer from the catastrophic decline in prices which started in 1929. The value of its silk production was virtually halved within the space of a year. Industrial production fell off approximately ten per cent, and there was a sharp drop in foreign trade. The number of registered unemployed in December 1931 had reached 470,000,<sup>113</sup> while the actual total was probably near 2,000,000.<sup>114</sup> Owing to the burden of fixed indebtedness, the farmers were most seriously affected by the deflationary process, but discontent was also prevalent among middle-class business men, salaried employees and factory workers.<sup>115</sup>

The first indications of improvement in Japan began to appear late in 1931, although it was not until the fall of 1932 that the pre-depression level of production was regained.<sup>116</sup> This recovery was accompanied, in the last few months of 1932, by an unparalleled revival of export trade. Imports also increased substantially, and the balance of trade became relatively more favorable to Japan.<sup>117</sup> With virtually no interruption, this upswing continued through the following year and into the early months of 1934. As a result of rising prices, business profits have undergone a tremendous rise, averaging 8.5 per cent as compared with a yield of only 4 per cent in the last part of 1931.<sup>118</sup> Gains in production, however, have been unevenly distributed among the various trades. Considerable advance has been made in textiles and in the heavy industries, while railway freight tonnage, the consumption of electric power

and the use of petroleum have remained subnormal.

### INDICES OF JAPANESE BUSINESS ACTIVITY<sup>119</sup> (Normal=100)

	Nov. 1931	Feb. 1932	Feb. 1933	Feb. 1934
R. R. Freight Tonnage ..	81.5	84.7	87.9	97.9
Coal Consumption .....	89.2	87.7	98.9	116.7
Electric Power Consumption .....	88.3	87.8	87.0	75.8
Cotton Threads Production .....	93.7	96.4	100.3	108.9
Exportable Silks .....	76.4	74.8	105.5	135.3
Cement Consumption .....	82.7	92.2	106.5	106.6
Steel Production .....	71.7	88.5	103.1	109.6*
Weighted Average .....	88.5	90.8	95.7	100.5

Note: Seasonal fluctuations and secular trends eliminated.  
\*January 1934.

Unlike the other important countries of the world, Japan can attribute its economic recuperation largely to the relative improvement of its export trade. While the gold value of its foreign commerce has undergone a steady decline as the result of lower prices, there has been a substantial increase in the volume of Japanese exports<sup>120</sup> as well as in Japan's share in the total trade of the world.<sup>121</sup> Observers differ sharply as to how much of this gain is due to the depreciation of the yen.<sup>122</sup> Many Japanese feel that the abandonment of efforts to stabilize the yen above its true value marked the turning point in the depression,<sup>123</sup> but the fact that the revival in industrial production and export trade began some months preceding the suspension of gold payments<sup>124</sup> would appear to indicate the relative unimportance of monetary factors. It is probable that the recent movement toward consolidation and rationalization of Japanese industry has played an even more important rôle in enhancing the competitive position of Japanese exports on the world market.<sup>125</sup> In addition, Japan has derived a substantial advantage from the increased demand for cheaper grades of goods as a result of the depression.<sup>126</sup>

As in many other countries, business recovery in Japan has been at the expense of lower living standards for the working class. Although unemployment has declined slightly, both nominal and real wages are below

119. *The Oriental Economist*, cited, May 1934, p. 36. No explanation is given as to the definition of "normal," used as the base for above figures.

120. Cf. *Monthly Bulletin of Statistics*, May 1934, p. 215.

121. Japanese exports constituted 2.93 per cent of world trade in 1929, 3.05 per cent in 1932, and 3.13 per cent in 1933. *Statistical Year-book of the League of Nations*, cited.

122. During 1932 the yen was at an average discount of 43.6 per cent in terms of gold; in 1933 the average discount was 59.7 per cent; while on June 8, 1934 it was at a discount of 64.2 per cent. On the last date the pound was 28 per cent below par and the dollar 40.6 per cent below its former gold value.

123. Cf. *The Oriental Economist*, cited, May 1934, p. 15-22.

124. Cf. C. M. Short, "Japan's Remarkable Recovery and its Causes," *The Annalist*, May 18, 1934.

125. Cf. *Memorandum on Industrial Control in Japan*, American Council, Institute of Pacific Relations, December 28, 1933; also *The Economist*, February 3, 1934.

126. Cf. C. M. Short, "Japan's Remarkable Recovery," cited.

112. The deficit in the trade balance for the first five months of 1934 was only 3,300,000,000 francs as compared with 10,000,000,000 francs in the corresponding 1933 period. *New York Times*, June 25, 1934.

113. *International Labour Review*, June 1932.

114. Cf. T. A. Bisson, "The Rise of Fascism in Japan," *Foreign Policy Reports*, October 26, 1932, p. 200.

115. *Ibid.*

116. The Mitsubishi Economic Research Bureau's index of industrial production (1921-25=100) was 159 in 1929, 147 in 1931, and 160 in September 1932. *Statistical Year-book of the League of Nations*, cited.

117. Japanese trade expansion in recent years will be the subject of a forthcoming *Foreign Policy Report*, to be published early in the fall.

118. Cf. *The Oriental Economist*, English Edition (Tokyo, The Toyo Keizai Simpo Sha), May 1934, p. 20.



those prevailing at the depth of the crisis in 1931:

INDICES OF EMPLOYMENT AND PAY-ROLLS<sup>127</sup>  
(Compiled by the Bank of Japan: 1926=100)

Average of Year	No. of Workers	Money Wages	Real Wages
1928 .....	90.4	99.1	105.3
1929 .....	91.1	98.8	103.9
1930 .....	82.0	96.2	98.7
1931 .....	74.4	91.3	90.7

1932 .....	74.7	88.1	88.1
1933* .....	81.2	85.4	88.9

\*Average from January to October.

Farmers have benefited somewhat from a slightly higher price for silk,<sup>128</sup> but with domestic consumption of farm products at a low ebb because of restricted purchasing power, living conditions have been far from satisfactory.<sup>129</sup>

## CONCLUSION

Little doubt can remain regarding the existence of a world economic upswing of significant proportions. While this improvement has taken place in countries which have adopted diametrically opposite social and economic policies, there is a certain consistency in the pattern of recovery that suggests the operation of similar forces. In the first place, the revival has been, except in Australia and Japan, almost wholly domestic in character. With a tightening of the restrictions on international trade, a certain amount of new construction has been necessary to furnish the domestic market with goods formerly purchased abroad. This factor, together with the need for replacements which had been neglected in the early years of the depression, resulted in special activity on the part of the capital equipment industries. The possibilities of expansion in this direction, however, are so limited that observers believe these factors have already ceased to operate as a stimulus to business revival. In the second place, there have been expenditures for public works, which in most cases have only become effective within recent months. While this has been partially offset in many countries by a curtailment of normal government expenditures, it has served to take up a portion of the slack which has resulted from a cessation of normal building activities. In the third place, it is significant that recovery has been most pronounced in the nations which have allowed their currencies to depreciate sufficiently to maintain at least a stable price level. Although in theory the adjustments to changed conditions resulting from the depression could have been achieved through deflation as well as through inflation,<sup>130</sup> few governments have felt themselves

strong enough to risk the political dangers involved in the former method. Finally, it is evident that, in the case of certain raw materials, restriction of production has proved temporarily advantageous in raising prices and the purchasing power of producers.

There are many features of the upturn, however, which some observers feel to be basically unsound. It is evident, for example, that little progress has been made toward overcoming the fundamental obstacles to a revival of world trade—such as the paralysis of international finance, exchange instability or elimination of trade barriers—without which recovery must be confined to fairly narrow limits.<sup>131</sup> The attempt of a number of the larger countries to resolve the contradictions of their internal economies by competitive currency depreciation has served to accentuate the disequilibria in the states retaining the gold standard.<sup>132</sup> Critics have pointed out that unless this tendency is checked the sharpening of national rivalries must sooner or later pass over into the military sphere.<sup>133</sup> Equally disturbing has been the failure of labor to obtain its share of the fruits of business recovery. Nowhere, save possibly in Germany, has employment kept pace with the gains in industrial activity. Real wages and standards of living for the working class appear to have fallen almost universally. Agriculture has also suffered a serious loss in purchasing power. It is evident that until consumption can be raised in line with production, there can be no basis for permanent recovery, and that such revival as has occurred will not affect the vast majority of the world's population.

130. Cf. Stewart, "Problems before the World Economic Conference," cited, p. 72-73; 78-79.

131. Cf. *World Economic Survey 1932-33*, cited, p. 302-27.

132. Cf. M. S. Stewart, "International Aspects of Roosevelt's Monetary Policy," *Foreign Policy Reports*, January 31, 1934, p. 278-280.

133. Cf. John Strachey, "The Two Wings of the Blue Eagle," *The Nation*, January 10, 1934.

127. *The Oriental Economist*, cited, May 1934.

128. For details regarding the silk problem, cf. *The Economist*, June 23, 1934.

129. Cf. *The Oriental Economist*, May 1934, cited.